

## Message Text

PAGE 01 NATO 01488 01 OF 03 181535Z

51

ACTION EUR-12

INFO OCT-01 ISO-00 DODE-00 CIAE-00 PM-03 INR-07 L-02

ACDA-05 NSAE-00 PA-01 PRS-01 SP-02 USIA-06 TRSE-00

SAJ-01 SS-15 NSC-05 EB-07 COME-00 FRB-03 CIEP-01

OMB-01 NIC-01 AGR-05 INT-05 FEAE-00 OES-03 XMB-02

NEA-09 STR-01 AF-06 /105 W

----- 102657

R 181416Z MAR 75

FM USMISSION NATO

TO SECSTATE WASHDC 690

INFO ALL NATO CAPITALS 5148

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 1 OF 3 USNATO 1488

E.O. 11652: GDS

TAGS: PFOR, ECON, NATO

SUBJ: ECONADS: STRATEGIS AND POLITICAL IMPLICATIONS OF ECONOMIC  
SITUATION UK VIEW

REF: USNATO 1476

1. UK ECONAD HAS DISTRIBUTED HIS GOVERNMENT'S DETAILED COMMENTS  
ON U.S. PAPER ON STRATEGIC AND POLITICAL IMPLICATIONS OF ECONOMIC  
SITUATION (AC/127-WP/423). UK AGREES GENERALLY WITH U.S.  
ASSESSMENT AND DETAILED COMMENTS DO NOT ALTER THRUST OF APPRECIATION  
NOR IMPLICATIONS TO BE DRAWN. SINCE OUR GOAL IS TO REACH AGREEMENT  
ON ECONOMIC DATA QUICKLY TO MOVE PAPER TO SPC, MISSION WOULD  
APPRECIATE DEPARTMENT'S EXPEDITIOUS REACTION TO UK COMMENTS.

2. UK NOTE IS AS FOLLOWS:

QUOTE.

CONFIDENTIAL

PAGE 02 NATO 01488 01 OF 03 181535Z

1. AT YESTERDAY'S MEETING OF THE ECONOMIC COMMITTEE I CIRCULATED  
A NOTE FROM H.M. TREASURY ABOUT THE PRESENT ECONOMIC SITUATION  
IN BRITIAN; THIS IS TO ASSIST IN OUR WORK ON THE STRATEGIC AND  
POLITICAL IMPLICATIONS OF THE PRESENT ECONOMIC SITUATION

(AC 127/WP 423) AND SHOULD NOT BE CIRCULATED AS AN ECONOMIC COMMITTEE DOCUMENT.

2. AS PROMISED, I AM NOW SENDING YOU OUR COMMENTS ON THE ORIGINAL AMERICAN PAPER WHICH WE GENERALLY FOUND EXCELLENT.

PARA 3:

THE STATEMENT THAT NATO FACES NO AVERAGE GROWTH IN GNP NEEDS CLARIFYING, AS TABLE 1 SHOWS THAT APART FROM THE UK, US AND ITALY, GNP WILL CONTINUE TO GROW.

PARA 4:

WHILE WE ARE INCLINED TO AGREE WITH THE UNITED STATES VIEW, DENIAL OF GRAIN BY THE WEST AFTER A BAD SOVIET HARVEST COULD PRESENT SERIOUS DIFFICULTIES DOMESTICALLY FOR THE USSR.

PARA 8:

NOT ONLY IS THE WARSAW PACT SELF-SUFFICIENT IN OIL, IT IS A NET EXPORTER OF OIL AND PRODUCTS TO THE NATO ALLIANCE - IN THE CASE OF EAST-WEST CONFLICT THIS SUPPLY COULD BE WITHDRAWN AND ALTHOUGH IN 1973 IT AMOUNTED TO ONLY 28 MILLION TONS, IN THE CASE OF INDIVIDUAL COUNTRIES WITHDRAWAL COULD BE VERY IMPORTANT, EG ICELAND.

PARA 10:

IF ECONOMIC TROUBLES PERSIST OR WORSEN IN THE WEST, THE IMPORTANCE OF COMMUNIST BLOC MARKETS COULD INCREASE FOR NATO COUNTRIES; THUS EAST-WEST COMMERCIAL INTERDEPENDENCE COULD GROW IN SOME AREAS. IN PARA 10 AND ELSEWHERE THE PAPER USES "THE WEST" TO REFER BOTH TO "FREE WORLD" AND "INDUSTRIAL WEST". IN TERMS OF PAYMENTS WE PREFER THE "HARD CURRENCY AREA", WHICH IS REFERRED TO LATER ON. WE WOULD ESTIMATE IMPORTS FROM THE INDUSTRIAL WEST SLIGHTLY HIGHER THAN \$6 BILLION, SAY \$6.1-6.3 BILLION, AND THOSE FROM THE CONFIDENTIAL

PAGE 03 NATO 01488 01 OF 03 181535Z

HARD CURRENCY AREA AT \$6.9-7.0 BILLION FOR 1974, SO OUR 1975 FIGURE (THIS YEAR) WOULD BE CORRESPONDINGLY HIGHER, SAY, \$7.5-8.5 BILLION FOR THE HARD CURRENCY AREA.

PARA 11:

WE AGREE THAT EAST EUROPEAN COUNTRIES MAY HAVE TO BOOST EXPORTS TO THE USSR TO PAY THE INCREASED BILL FOR SOVIET OIL AFTER 1975. THIS MAY NECESSITATE A SLOW DOWN IN THE RATE OF GROWTH OF THEIR EXPORTS TO THE WEST RATHER THAN A REDUCTION IN ABSOLUTE TERMS, AND/OR MAY ALSO NECESSITAE A SLOWER RATE OF GROWTH IN THE AMOUNT OF MANUFACTURED GOODS DESTINED FOR THEIR DOMESTIC MARKETS. WE AGREE THAT WESTERN CREDITS AMELIORATE EASTERN

EUROPE'S DEPENDENCE ON THE USSR; BUT THE LONGER-TERM FUTURE OF SUCH CREDITS DEPENDS ON THE AREA'S ABILITY TO MARKET ITS GOODS IN THE WEST. THIS HAS BEEN TRUE FOR SOME TIME. WESTERN CREDITS WILL BE USED TO PURCHASE MACHINERY AS IN THE PAST, WHILE THE USSR WILL CONTINUE TO SUPPLY RAW MATERIALS AND SEMI-MANUFACTURES WHICH WILL STILL BE AVAILABLE IN SOFT CURRENCY, AND STILL AT PRICES LOWER THAN WORLD MARKET ONES IN THE 1976-80 PERIOD. WE DO NOT SEE AN ABSOLUTE DECLINE IN EAST EUROPEAN IMPORTS FROM THE WEST, BUT IN FUTURE THESE WILL HAVE TO BE MORE CAREFULLY MATCHED TO EXPORT EARNING CAPABILITIES AND IN THE EVENT OF DEBT PROBLEMS WITH WESTERN COUNTRIES, WE BELIEVE THE WEST WILL ACT DECISIVELY AND CUT IMPORTS WHEN NECESSARY.

MOREOVER, AS EAST EUROPEAN INDEBTEDNESS GROWS, NATO COUNTRIES MIGHT BE FACED WITH DIFFICULT DECISIONS: OUR POLITICAL DESIRE TO HELP EAST EUROPEAN COUNTRIES WITH CREDITS MIGHT CLASH WITH ECONOMIC ARGUMENTS ABOUT THEIR CONTINUED CREDIT-WORTHINESS, WHEREAS OF COURSE THE USSR, WHICH WE ARE LESS KEEN TO AID, IS LIKELY OF COURSE TO REMAIN EMINENTLY CREDIT-WORTHY.

CONFIDENTIAL

PAGE 01 NATO 01488 02 OF 03 181555Z

51

ACTION EUR-12

INFO OCT-01 ISO-00 DODE-00 CIAE-00 PM-03 INR-07 L-02

ACDA-05 NSAE-00 PA-01 PRS-01 SP-02 USIA-06 TRSE-00

SAJ-01 SS-15 NSC-05 EB-07 COME-00 FRB-03 CIEP-01

OMB-01 NIC-01 AGR-05 INT-05 FEAE-00 OES-03 XMB-02

NEA-09 STR-01 AF-06 /105 W

----- 102897

R 181416Z MAR 75

FM USMISSION NATO

TO SECSTATE WASHDC 691

INFO ALL NATO CAPITALS 5149

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 2 OF 3 USNATO 1488

PARA 12:

FINAL SENTENCE. AMONG NSWP COUNTRIES, ONLY CZECHOSLOVAKIA AND EAST GERMANY HAVE A PER CAPITA CWP HIGHER THAN THAT OF THE USSR. THEE TWO COUNTRIES HAVE 30 PERCENT OF THE NSWP POPULATION AND MERIT SEPARATE MENTION.

PARA 25;

MORE SHOULD PROBABLY BE SAID ON THE WAYS IN WHICH IMPORTED INFLATION AFFECTS COMMUNIST ECONOMIES.

PARA 28:

WE AGREE WITH US ESTIMATE OF HARD CURRENCY SURPLUS ON GENERAL TERMS-IT MAY BE NEARER \$1.3 BILLION. NATURAL GAS IS NOT YET A MAJOR EXPORT EARNER,(IN COMPARISON TO OIL, TIMBER, NON FERROUS METALS, DIAMONDS) BUT WILL BECOME INCREASINGLY IMPORTANT IN THE LATER YEARS OF THIS CONFIDENTIAL

PAGE 02 NATO 01488 02 OF 03 181555Z

DECADE. BUT THERE IS NO MENTION OF SOVIET POLICY ON GOLD SALES, WHICH CONTRIBUTE TO HER ENHANCED FINANCIAL STANDING. WE WOULD EXPECT SALES TO CONTINUE, THOUGH NOT NECESSARILY ON THE SCALE OF 1973. THERE ARE SOME INDICATIONS THAT THE USSR MAY NOW BE MORE WILLING TO HOLD FOREIGN CURRENCY AS RESERVES, RATHER THAN INCREASE GOLD STOCK.

PARA 30:

THE LAST SENTENCE READS AS THOUGH SIBERIAN DEVELOPMENT WERE ALREADY RAPID, AND THIS IS NOT THE CASE. SOVIET SHOPPING FOR WESTERN ASSISTANCE HAS BEEN GOING FOR SEVERAL YEARS, SINCE THE EARLY 1960S AT LEAST, PARTICULARLY FOR RAW MATERIAL PROJECTS.

PARA 31:

FIRST SENTENCE. WE FEEL THAT IT IS GOING TO FAR TO STATE THAT SOVIET ECONOMIC PROGRAMES ARE SO DEPENDENT ON WESTERN CREDITS. WE SUGGEST A REDRAFT TO READ: "SOVIET DECISIONS TO STRENGTHEN THE ECONOMY AND CONSUMER WELFARE HAVE TO SOME EXTENT BEEN BASED ON OBTAINING SUBSTANTIAL WESTERN CREDITS."

PARA 32:

TO SAY THAT "NOT ALL SIBERIAN INVESTMENTS WILL YIELD IMMEDIATE NET RETURNS" UNDERESTIMATES THE PROBLEMS OF SIBERIAN DEVELOPMENT.

PARA 36:

IF MIDDLE EAST TENSIONS AROSE,ROMANIA WOULD FIND HERSELF IN A DIFFICULT POSITION, IN AS MUCH AS SHE WOULD NEED TO FOLLOW THE WARSAW PACT LINE, BUT HER OIL FROM THE MIDDLE EAST REACHES HER VIA PIPELINE THROUGH ISRAEL WHICH COULD HALT SUPPLY. THIS WOULD NOT AFFECT DOMESTIC SUPPLY BUT WOULD AFFECT EXPORT EARNING CAPACITY AS SHE SELLS PRODUCTS TO BOTH EAST AND WEST. EAST EUROPE. THE LAST SENTENCE PERHAPS UNDERESTIMATES THE POLITICAL TRADE

DEFICIT WITH THE HARD CURRENCY AREA; THE 1973/74 POLISH DEFICIT ON  
VISIBLE TRADE WAS IN THE ORDER OF \$3.2 BILLION, COMPARED TO THE  
RECORD USSR DEFICITS OF 1972/73 OF \$3 BILLION.  
CONFIDENTIAL

PAGE 03 NATO 01488 02 OF 03 181555Z

PARA 37:  
WE ESTIMATE THAT SOVIET EXPORTS OF OIL TO EAST EUROPE WILL BE IN  
THE ORDER OF 70M TONS IN 1980, SOMEWHAT OF AN INCREASE.

PARA 39:

THE EAST EUROPEANS HAVE ALREADY CONTRACTED TO UNDERTAKE LONGER TERM

DEVELOPMENT IN SOVIET ENERGY DEVELOPMENT, EG THE CRENBURG NATURAL  
GAS PIPELINE, TO WHICH ALL THE NSWP COUNTRIES ARE CONTRIBUTING.

PARA 40:

OUR ESTIMATES FOR EAST EUROPE'S NON-SOVIET OIL IMPORTS IN 1980 ARE  
IN THE REGION OF 30 MILLION TONS, WHICH AT CURRENT PRICES WOULD  
INVOLVE \$2200 MILLION OF CONVERTIBLE CURRENCY. HOWEVER, IT IS NOT  
EXPECTED THAT THE EAST EUROPEAN COUNTRIES WILL SHOULDER THE FINANCIAL  
BURDEN ALONE AND THE USSR MAY PLAY A LARGER ROLE THAN AT PRESENT IN  
FINANCING MIDDLE EAST SUPPLIES FOR EAST EUROPE IN HER OWN ACCOUNT.

PARA 41:

THE OIL COMES OF COURSE NOT FROM THE INDUSTRIAL WEST BUT FROM DEVELOP-  
ING COUNTRIES, LARGELY IN THE MIDDLE EAST AND NORTH AFRICA: THE  
QUESTION IS WHETHER WESTERN CREDIT COULD DIRECTLY FINANCE OIL IMPORTS  
AND THE ANSWER WOULD APPEAR TO BE ONLY EURO CURRENCY CREDIT (NOT GOVERN-  
MENT GUARANTEED CREDIT). SIMILARLY SOME EURO CURRENCY FUNDS MAY BE  
ARAB IN ORIGIN. IT IS DIFFICULT TO ENVISAGE ARAB CREDITS SPECIFICALLY  
FOR THE PURPOSE OF FINANCING OIL IMPORTS; BUT THEY MAY BE FORTHCOMING,  
AS IN HUNGARY, TO FINANCE INDUSTRIAL DEVELOPMENT.

PARA 42: THE POLISH VISIBLE TRADE DEFICIT FOR THE YEAR 1974 IS LIKELY  
TO BE IN THE ORDER OF \$2.1 (-2.3) BILLION.

PARAS 44/5:

SAME COMMENT AS FOR PARA 26. RETAIL PRICES ROSE QUITE SHARPLY IN  
POLAND IN 1974-THE INCREASE REACHING ABOUT 8 PERCENT OVERALL  
CONFIDENTIAL

PAGE 04 NATO 01488 02 OF 03 181555Z

IN SEPTEMBER-IN SPITE OF THE FREEZE IN PRICES OF BASIC FOODS.  
WE AGREE, HOWEVER, THAT THE RATE OF PRICE INFLATION IS CERTAINLY  
LOWER THAN IN THE WEST.

CONFIDENTIAL

PAGE 01 NATO 01488 03 OF 03 181540Z

51

ACTION EUR-12

INFO OCT-01 ISO-00 DODE-00 CIAE-00 PM-03 INR-07 L-02

ACDA-05 NSAE-00 PA-01 PRS-01 SP-02 USIA-06 TRSE-00

SAJ-01 SS-15 NSC-05 EB-07 COME-00 FRB-03 CIEP-01

OMB-01 NIC-01 AGR-05 INT-05 FEAE-00 OES-03 XMB-02

NEA-09 STR-01 AF-06 /105 W

----- 102737

R 181416Z MAR 75

FM USMISSION NATO

TO SECSTATE WASHDC 692

INFO ALL NATO CAPITALS 5150

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 3 OF 3 USNATO 1488

PARA 46: THERE IS NOT ONLY THE SOVIET PRICE RISES TO TAKE INTO ACCOUNT, BUT A READJUSTMENT OF CMEA PRICES GENERALLY, IN WHICH THE TERMS OF TRADE ARE CERTAIN TO SHIFT IN FAVOUR OF THE USSR. IN THE LAST FEW YEARS THEY HAVE BEEN VERY MUCH TO EASTERN EUROPE'S ADVANTAGE.

PARA 47: THE EAST EUROPEANS MAY FIND IT DIFFICULT TO OBTAIN CREDITS ON CONCESSIONARY TERMS FROM THE SOVIET UNION, EXCEPT PERHAPS BULGARIA OR UNLESS THEY WERE IN GREAT FINANCIAL DIFFICULTIES (VIS-A-VIS THE WEST) AND THIS WOULD ENTAIL GREATER DEPENDENCE ON THE USSR. THEY MAY, HOWEVER, BE ALLOWED TEMPORARY DEFICITS ON TRADE ACCOUNT, THOUGH IN 1973 MOST EAST EUROPEAN COUNTRIES HAD A SURPLUS AGAINST THE USSR. SUGGEST DELETE "A PAUSE" AND SUBSTITUTE "A SLOWER RATE OF PROGRESS" IN THE FINAL SENTENCE.

PARA 49: SUGGEST DELETE FIRST FOUR SENTENCES AND SUBSTITUTE "THE EASTERN BLOC'S ECONOMY HAS OTHER MAJOR PROBLEMS, INCLUDING UNDER EMPLOYED LABOUR, LOW PRODUCTIVITY, AND THE DRAG  
CONFIDENTIAL

PAGE 02 NATO 01488 03 OF 03 181540Z

OF BURDENSOME BUREAUCRACIES, ALL OF WHICH TEND TO RESTRICT THE DEVELOPMENT POTENTIAL".

PARA 50: WHILE IT IS TRUE THAT THESE COUNTRIES HAVE 5 YEAR PLANS, THEY CAN, AND DO, MODIFY THEM UNDER PRESSURE OF EVENTS.

3. AS A GENERAL POINT, HERE IS NO ANALYSIS OR EVEN MENTION OF WHAT PART THE OMEA MIGHT PLAY IN THE ECONOMIC SITUATION. ALSO PRESUMABLY SOME TABLE (OR TABLES) ON THE WARSAW PACT COUNTRIES WILL BE ADDED.

4. THE CONCLUSIONS WHICH YOU DRAW IN YOUR PAPER WILL OF COURSE BE MOST IMPORTANT. THESE SHOULD, WE THINK, INCLUDE AN ASSESSMENT OF HOW THE ECONOMIC PROBLEMS OF THE WEST HAVE AFFECTED THE BALANCE OF THE RESOURCES WHICH NATO AND THE WARSAW PACT HAVE AVAILABLE FOR DEFENCE.

UNQUOTE. BRUCE

CONFIDENTIAL

<< END OF DOCUMENT >>

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 18 AUG 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 18 MAR 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975NATO01488  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** 11652 GDS  
**Errors:** n/a  
**Film Number:** n/a  
**From:** NATO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750398/abbrziuw.tel  
**Line Count:** 342  
**Locator:** TEXT ON-LINE  
**Office:** n/a  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 7  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** USNATO 1476  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 15 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <15 APR 2003 by ShawDG>; APPROVED <16 APR 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONADS: STRATEGIS AND POLITICAL IMPLICATIONS OF ECONOMIC SITUATION UK VIEW  
**TAGS:** PFOR, ECON, NATO  
**To:** STATE INFO ALL NATO CAPITALS  
OECD PARIS  
EC BRUSSELS  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006